

# REPORT

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## Lessons for the Philanthropic Sector on the Use of Matching Contingencies

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## INTRODUCTION

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Many philanthropic institutions require prospective or current grantees to match all or part of the value of a grant in order to secure funding.<sup>1</sup> Foundations use matching contingencies to recruit funding partners, build grantee capacity to raise funds, replicate program models, and exit from the field, among other purposes. Over the past five years, the Atlantic Philanthropies (Atlantic) has made a requirement that grantees match foundation funding with grants and donations from other sources a central grant-making strategy. Because Atlantic is a limited-life foundation, it is using matching contingencies to minimize possible negative effects on grantees due to reductions in funding as the foundation ceases operations. Atlantic hopes that using matching contingencies will (1) help grantees grasp the incentive to replace declining foundation funding, (2) help grantees increase their fundraising, and (3) encourage other funders to respond to grantees' requests for the match, thereby drawing new money into the field.

Foundations using matching contingencies rely on their knowledge of the funding process to design and implement this type of financing. Furthermore, there is little or no empirical evidence on the effects of matching contingencies on grantees, their projects, or the fields of grantees in different program areas or geographic locations. In January 2014, Atlantic commissioned Mathematica Policy Research to evaluate its matching practices. The purpose of the evaluation is to document the utility and outcomes of Atlantic's use of matching requirements. The findings in this report provide information on the outcomes and effects of the use of matching contingencies to inform other philanthropic organizations about possible consequences of this funding practice.

Section A of this report summarizes matching contingency outcomes for the 38 grantees included in our evaluation. Section B documents the most important effects of contingencies on grantees' financial status, operations, and ties to funders and peer organizations. Section C describes the factors that seem to affect whether and how grantees meet their matches. Section D provides some general lessons for other foundations that might be thinking about using matching contingencies in their grant-making. These lessons include factors that foundations should consider, as well as data elements that they might want to collect for use in managing matching contingencies.

**Data source.** The data for this report were collected from telephone interviews with 38 Atlantic grantees that had received grants with matching contingencies between 2009 and mid-2014 (out of a total of 346 such grantees), and the 19 program executives (PEs) who had designed, implemented, or monitored the contingencies. The grantees were chosen through a sampling plan designed to represent the proportion of grants with matching contingencies found in each of the foundation's four program areas (Aging, Children and Youth, Population Health, and Reconciliation and Human Rights) and within its five geographic regions (Northern Ireland,

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<sup>1</sup>Matching contingencies require prospective grantees to raise external funds in a pre-determined ratio for all or part of the overall value of the grant in order to secure foundation funding. For example, a 20 percent matching contingency for a \$100,000 grant at a 1:1 ratio would require the grantee to raise \$20,000 in order to receive \$20,000 from Atlantic.

the Republic of Ireland, South Africa, the United States, and Vietnam). The 45-minute telephone interviews focused on the results of the matching contingencies.

#### A. Expectations and outcomes for matching contingencies

The foundation had both explicit and implicit goals for the practice of assigning matching contingencies. Matching contingencies were intended to:

- Help grantees cope with declining Atlantic funding—specifically, by replacing some Atlantic funds with funds from other sources—as Atlantic exits the field
- Promote the continuation of grantees’ goals and activities and the foundation’s objectives by helping to ensure the sustainability of the grantees
- Bring new funders to program areas so that work can continue in these areas
- Strengthen the fields of grantee organizations working in the program areas and in countries that the foundation values

**Matching contingencies in practice.** The study revealed that matching contingencies have both advantages and disadvantages, and that a matching contingency strategy is not a clear solution for every organization that depends on Atlantic for funding. The foundation’s practice has achieved some, but not all, of its intended effects. By the time of our interviews, 23 out of 38 grantees said they had met their match or expected to, 5 grantees were on track to meet an adjusted match (such as more time to raise the funds), 8 grantees did not expect to meet their match, and 2 would not venture a prediction.

**Positive outcomes.** Matching contingencies had the following constructive effects:

- Three-quarters of grantees answering the question used the funds obtained for their match to replace declining funding from Atlantic. In contrast, 20 percent of grantees answering that question said that they expanded or scaled up their programs with the funds they received. Most grantees said the matching funds helped to stabilize their finances, although some saw this as a short-term solution.
- The challenge of meeting matching contingencies prompted grantees to do more strategic planning and raised the salience of the issue of organizational sustainability to grantee leadership.
- Grantees attracted funding from sources that ranged from the expected (other foundations) to the rather unexpected (grants from the national lottery). Seventy-seven percent of grantees (23 of the 30 who matched or thought that they would match) obtained funding from other foundations to help meet their matching requirement, while 47 percent (14 of the 30) secured support from individual donors, usually wealthy individuals, or else sought many small donations from their members. Fifty percent (15 of the 30) obtained grants from government agencies, both local and foreign, and 20 percent (6 of the 30) obtained support from for-profit organizations.<sup>2</sup> It was not uncommon for a grantee’s former or current funders to contribute toward the grantee’s match. About 45 percent of grantees reported that

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<sup>2</sup> Grantees could report more than one new source of financial support.

they received funds from among their current funders. About one-fifth reported that they had used in-kind support to help make their match; these included translation services, conference and planning services, office and training space, and equipment.

- According to nearly two-thirds of both PEs and grantees, including a matching contingency did help increase Atlantic grantees' fundraising capacity.
- Some Atlantic staff raised a concern that recruiting new funders to meet a match could distort the goals and strategies of grantees. In reality, grantees said recruiting new funders did not affect their goals or the strategies they used to pursue them. Only 10 percent of grantees reported that their new funders requested any alterations in their goals or strategies and most changes were relatively minor. Matching contingencies appear to strengthen grantees' financial outlook without interfering with their independence.
- The use of matching contingencies strengthened some fields in some of the foundation's program areas by building an infrastructure of new funders. Grantees working in the field of aging, for example, felt that the infrastructure of funders was strengthened. Grantees in the field of human rights, in contrast, did not perceive any improvement in the funding infrastructure.
- Grantees that received foundation support to search for new funders, such as technical assistance on fundraising, said these practices were effective.

**Mixed outcomes based on the variations among grantees.** Because the study grantees ranged in size and purpose across four program areas in five regions, the use of a standard set of practices for matching contingencies had varying consequences:

- Matching contingencies were more challenging for grantees working in program areas or regions without a strong philanthropic base. Seventy-eight percent of PEs (15 of 19) and 56 percent of grantees (20 of 38) reported that the topic or policy area in which grantees worked greatly influenced the potential for meeting the matching contingency. Just under half of the grantees (13 of 19) and two-thirds of program staff (18 of 38) agreed that the country in which the grantee works influences whether it can raise the match attached to its grant. Grantees in the field of human rights and reconciliation, for example, found matching contingencies more difficult to address because fewer funders provide support in that program area. US-based grantees found that the large philanthropic community offered more opportunity for new funders compared to Northern Ireland, where the foundation sector is smaller.
- The degree of difficulty in meeting matching contingencies also depended on the type of work that grantee organizations carry out. Certain specialized types of organizations found matching contingencies challenging. Grantees that used advocacy tactics to change public policy, for example, reported fewer opportunities for alternative funding because many foundations do not fund that type of work.
- Many respondents (68 percent of program staff [13 of 19] and 39 percent of grantees [15 of 38]) mentioned that small organizations have more trouble with matching contingencies than larger ones. Several respondents, however, identified factors that mitigated some of the effects of size. Organizational leadership and an assertive approach seemed to outweigh the disadvantages of small size in some organizations.

**Negative outcomes.** Nine of 13 program staff and 6 of 19 grantees identified several disadvantages to matching contingencies:

- Matching contingencies led a few grantees to pursue easier and shorter-term funding than they might have pursued without the matching requirement. One grantee explained that matching contingencies encouraged grantees to capture the quickest dollar, rather than the most sustainable dollar.
- Matching contingencies have engendered greater competition and disruption among peer organizations in fields of grantees, according to a few respondents. However, others said that competition is endemic and not necessarily related to the practice.

**Moving forward.** In sum, the findings show that matching contingencies are neither a universal solution to the expected changes in funding levels nor a destructive practice. The underlying message is that some types of grantees benefit from matching, while others find it a difficult and perhaps unhelpful process in the long run.

## B. Factors to consider regarding the use of matching contingencies

The use of matching contingencies changes a foundation's relationship with its grantees—by complicating the management of grants and grantee relations—and with peer foundations. Below are several issues for foundations to consider before assigning matching contingencies to grants, including the purpose, design, and policies that govern the practice:

1. What is the purpose for using matching contingencies? What foundation goals will they support? Are contingencies to be used to cushion grantees from the foundation's exit from a program area? Are they to build grantee sustainability? Or are they to stabilize grantees by encouraging the diversification of grantee funding sources?
2. Will contingencies be attached to grants for general operating funds or for a specific project? Matching funds for general operating support can stabilize the organization, but many funders prefer to fund specific projects.
3. What will grantees be allowed to do with the matching funds? Will they be limited to setting money aside until the foundation ceases its funding or will they be permitted to invest matching funds to expand into a new field or to build a new capacity?
4. How much variation in matching contingencies will be allowed based on grantee characteristics or situations? Will smaller organizations have easier matching requirements? Will organizations with greater fundraising experience receive more favorable matching conditions or more difficult matching conditions? Should matching contingencies be limited to program areas with robust funding communities already in existence?
5. Will the foundation invest resources, such as technical assistance or in-kind services, to help grantees improve their chances of meeting their match?
6. What will be the policy if a grantee fails to meet the match? Will the foundation allow for changes to the elements of the matching contingency if the grantee encounters problems in meeting the match (such as in depressed economic times)? Will the policy require the grantees to meet the entire match or else receive no new funding? Will the foundation provide partial grants that match whatever amount the grantee has raised? The former

practice has a much larger incentive than the latter, but allowing partial matches might be more realistic for many types of grantees.

### C. Lessons for the foundation sector

**Some types of grantees are better suited to matching contingencies than others.** Judging from our interviews, the types of grantees that seem well-suited to matching contingencies possess a combination of organizational characteristics, grantee choice of program areas, and geographic location, as follows:

- Organizations most likely to do well with matching contingencies in grants have at least 10 employees and have some existing capacity for fundraising.
- A prime candidate for matching contingencies is an organization with charismatic leadership and staff with enough commitment and energy to raise the funds that are needed. An organization with effective staff can achieve the match, pursue its mission, and grow at the same time.
- The ideal grantee organization for a matching contingency is one that does its work in a program area and/or a country where the funding community is large and robust, and pursues a mission that is compelling to funders and the general public.

**A foundation can take actions that increase the likelihood that grantees will meet their matching contingency. Efforts that foundations can make include:**

- Hold discussions with grantees before designing the contingencies. This makes the contingency more effective than one that is standardized or imposed without such communication. These discussions should begin before the grant is awarded. Their purpose is to allow the foundation and the potential grantee to consider (1) the grantee's long-term sustainability, (2) ways to fit the matching contingency into the grantee's goals for growth, and (3) how to design the contingency to suit the organization's capacity and financial situation.
- Offer assistance and flexibility in securing matching funds.
  - Possible forms of assistance include: training grantee personnel in fundraising and/or strategic planning, and developing a grantee-to-grantee mentoring program or grantee roundtable to discuss sustainability issues.
  - Maintain flexibility by (1) working with grantees to create an alternative funding plan at the time of the grant, should matching prove too difficult, or (2) allowing renegotiation of the matching requirements if the matching campaign does not go as planned.
- Elicit the interest of alternative funders in the grantees with matching contingencies.
  - Use foundation communications resources to make the case for the issues that grantees are working on; promote the strategic approach of those grantees.
  - Sponsor conferences that highlight the work of grantees and invite other funders to them. This might enhance the reputation of grants and build contacts with funders.

- Design projects that encompass both the foundation's own program interests and those of other funders in closely related fields. Joint projects might attract other funders to the projects and eventually to funding further work after the original foundation exits the program area or the field.

#### D. Managing grants with matching contingencies

Because empirical evidence on the implementation and effects of attaching matching contingencies to grants is limited, foundations adopting the practice would be wise to set up a management information system to help them design and execute the grants, and learn from their experience. The table below contains a set of data elements that could assist foundations in gathering useful information on their matching contingency activities.

Possible Data Elements to Manage Matching Contingency Grants	Potential Grantee Outcomes		
Data Point	Grantee Made Match	Grantee Built Capacity	Grantee Sustained
<b>Grantee Organization Characteristics</b>			
Type of grantee organization (service provider, advocacy group, etc.)			
Grantee size (size of annual budget; annual revenue, etc.)			
Program area(s)			
% revenue funded by this foundation			
% revenue funded by other foundations			
% revenue funded by govt. agencies			
% revenue from individual donors			
Years since grantee (or program) established			
<b>Description of Matching Contingency</b>			
Contingency amount			
Length of time to meet match (projected/actual)			
Number of installments toward matching			
<b>Assessment of Prospects of Alternative Funders</b>			
Number of funders in program area			
Number of funders in geographical location			
<b>Other</b>			

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